

# **THE OFFICE OF REGULATORY STAFF**

## **DIRECT TESTIMONY**

**OF**

**DANIEL F. SULLIVAN**

**MAY 3, 2010**



**DOCKET NO. 2009-489-E**

**Application of South Carolina Electric & Gas  
Company for Increases and Adjustments in  
Electric Rate Schedules and Tariffs**

**DIRECT TESTIMONY OF DANIEL F. SULLIVAN**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2009-489-E**

**IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY FOR  
INCREASES AND ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND  
TARIFFS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

**A.** My name is Daniel F. Sullivan. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as an auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.**

**A.** I received a Bachelor of Science Degree in Business Administration with a major in Accounting from the University of South Carolina in December 1998. From February 1999 to February 2005, I was employed as an auditor with the South Carolina Auditor's Office. In that capacity, I performed audits and reviews of cost reports filed by institutional providers of Medicaid services for the South Carolina Department of Health and Human Services. The primary purpose of those audits and reviews was to establish the applicable reimbursement rates to be paid to Medicaid providers for services rendered to qualified Medicaid patients. In February 2005, I began my employment with ORS and since have been involved in cases dealing with the regulation of electric, gas, water and wastewater companies.

**Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to set forth the findings and recommendations resulting from ORS's examination of South Carolina Electric & Gas Company's ("Company" or "SCE&G") adjustments 12 through 18 included in the Application for Adjustments and Increases in the Company's Electric Rate Schedules and Tariffs, in Docket No. 2009-489-E. These findings and recommendations are explained in detail in my testimony.

**Q. PLEASE EXPLAIN THE RELATED ORS ADJUSTMENTS.**

**A.** Cope Selective Catalytic Reactor ("SCR") - ORS Adjustments #32 & #60 (Company Adjustment #12) - ORS and the Company propose to increase depreciation expense and accumulated depreciation for the Cope SCR. In Order No. 2008-741, the Commission authorized the Company, in part, to "delay commencement of the depreciation of its SCR at Cope Station until such time as rate recovery for [this] asset is provided for in SCE&G's Commission approved base rates." The Cope SCR was one of the pollution control facilities referenced in that Order. ORS verified total cost of the Cope SCR project as of February 28, 2010 in the amount of \$70,070,708. ORS calculated an increase in total yearly depreciation expense and accumulated depreciation of \$2,921,949 using the depreciation rate provided by the ORS Electric Department. The increases in both depreciation expense and accumulated depreciation are \$2,810,476, on a Retail basis.

Peaking Turbines - ORS Adjustments #33, #52 & #61 (Company Adjustment #13) - ORS and the Company propose to adjust plant in service, depreciation expense and

1 accumulated depreciation to reflect the cost of acquiring and installing two natural gas  
2 peaking turbines at Plant Hagood in North Charleston. ORS verified a total cost and  
3 increase in plant in service for the Peaking Turbines as of February 28, 2010 in the  
4 amount of \$42,412,356. ORS calculated an increase to total yearly depreciation expense  
5 and accumulated depreciation of \$1,972,175 using the depreciation rate provided by the  
6 ORS Electric Department. The increase in plant in service is \$40,797,789 and the  
7 corresponding increases in depreciation expense and accumulated depreciation  
8 adjustments are \$1,897,098, respectively, on a Retail basis.

9 Amortize Peaking Turbines Deferral Over 10 Years – ORS Adjustment #34 (Company  
10 Adjustment #14) - The Company proposes to defer depreciation expense associated with  
11 the Peaking Turbines until recovery is provided for in Phase 3 of their request. ORS is not  
12 proposing a Phased implementation of rates, and therefore, no adjustment is necessary.

13 Wateree Environmental – ORS Adjustments #9, #35, #53, #62 & #66 (Company  
14 Adjustment #15) - The Company proposes to increase plant in service, depreciation  
15 expense, accumulated depreciation, and operation and maintenance (“O&M”) expense  
16 associated with the flue gas desulfurization unit (“scrubber”), associated facilities and  
17 landfill at Wateree Station in Wateree. ORS verified a Construction Work in Progress  
18 (“CWIP”) balance of \$266,228,046 as of February 28, 2010 for the Wateree  
19 Environmental Project. ORS proposes a total increase of \$6,534,647 to CWIP for the  
20 Wateree Environmental Project to reflect updated construction costs. The increase in  
21 CWIP is \$6,285,884, on a Retail basis. ORS does not propose adjustments to O&M  
22 expense, depreciation expense, plant in service or accumulated depreciation since the  
23 Wateree Environmental Project is not in service.

1        Amortize Wateree Deferral Over 10 Years – ORS Adjustment #36 (Company  
2        Adjustment #16) - The Company proposes to defer depreciation expense and incremental  
3        O&M associated with the Wateree Environmental Project until recovery is provided for in  
4        Phase 3 of their request. ORS is not proposing a Phased implementation of rates, and  
5        therefore, no adjustment is necessary.

6        Williams Environmental – ORS Adjustment #10 (Company Adjustment #17) – ORS and  
7        the Company propose to reflect the increase in O&M expense associated with operation  
8        of the scrubber installed at Williams Station. Williams Station is operated by SCE&G  
9        but is owned by South Carolina Generating Company, Inc. (“GENCO”), which is a  
10       wholly owned subsidiary of SCANA. SCE&G purchases all power generated at  
11       Williams Station through a unit power sales agreement which includes a FERC approved  
12       formula rate that passes current operating and capital costs associated with Williams  
13       Station on to SCE&G as purchased power. ORS verified the capital costs of the scrubber  
14       installed at Williams Station as of February 28, 2010 and incorporated these costs into the  
15       calculation of the GENCO bill. The result is a total increase in purchased power of  
16       \$26,980,874. The increase in purchased power is \$25,949,852, on a Retail basis.

17       Williams Station Deferred Expenses – ORS Adjustment #11 (Company Adjustment #18)  
18       The Company proposes to defer the increase in purchased power associated with the  
19       Williams Environmental project until recovery is provided for in Phase 2 of their request.  
20       ORS is not proposing a Phased implementation of rates. However, ORS does propose an  
21       adjustment to include amortization of deferred purchased power expense. The result is a  
22       total increase in purchased power of \$282,658. The increase in purchased power is

1           \$271,875, on a Retail basis. ORS witness Leigh Ford addresses this adjustment in more  
2           detail in her Direct Testimony.

3   **Q.   DOES THIS CONCLUDE YOUR TESTIMONY?**

4   **A.**Yes, it does.